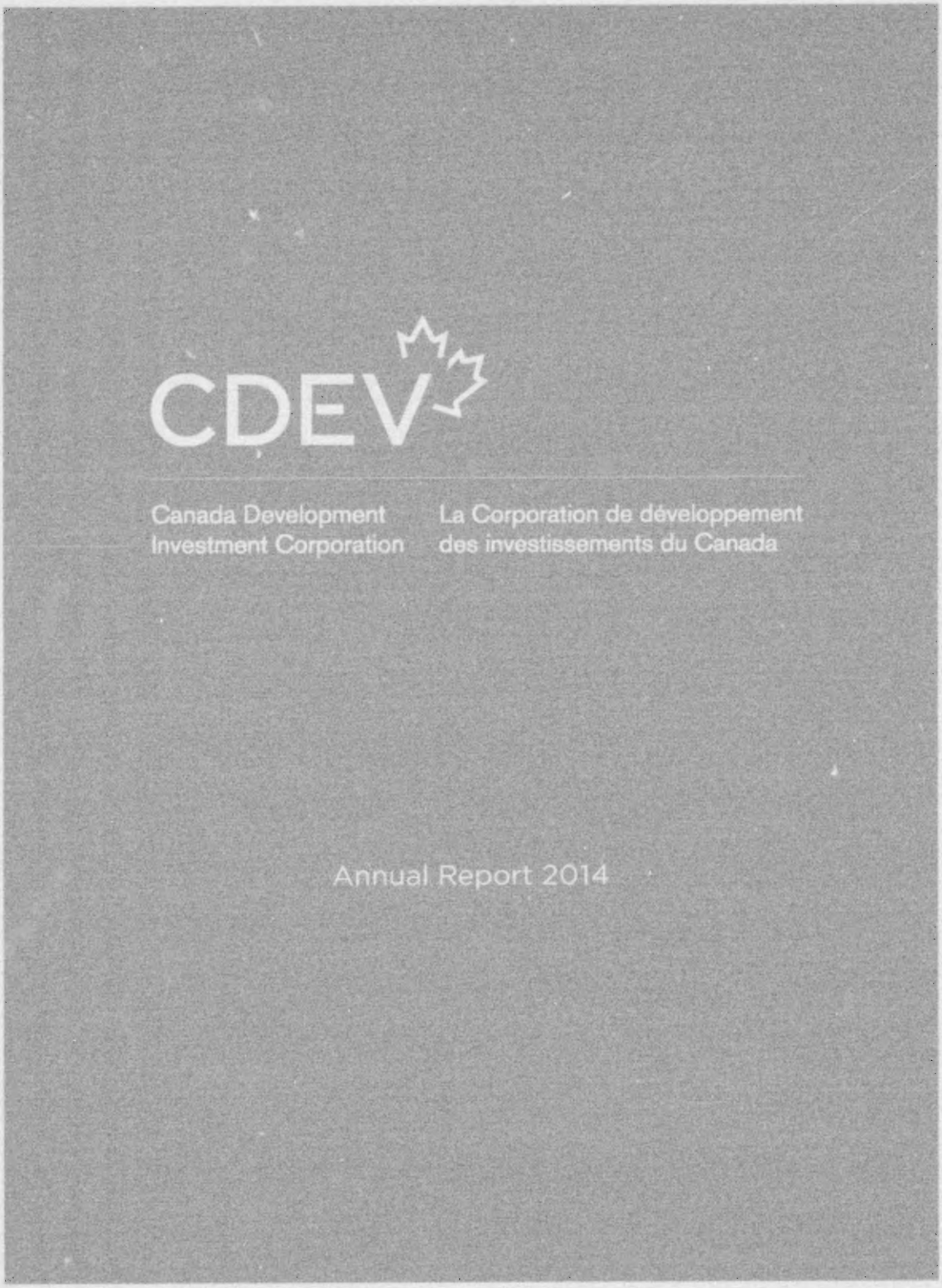

CDEV
Canada Development Investment Corporation
La Corporation de développement des investissements du Canada
Annual Report 2014

CDEV

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

Contents

Report to the Minister	2
Directors and Officers	3
Corporate Governance Practices	6
Canadian Environmental Assessment Act Compliance	6
Management Discussion and Analysis of Results	7
Management's Responsibility for Financial Statements	13
Independent Auditors' Report	14
Consolidated Financial Statements of Canada Development Investment Corporation December 31, 2014	15

Corporate Address:

1240 Bay Street, Suite 302
Toronto, ON M5R 2A7

Telephone: (416) 966-2221
Facsimile: (416) 966-5485
Website: www.cdev.gc.ca

Report to the Minister

The Honourable Joe Oliver
Minister of Finance

Dear Minister Oliver:

I am pleased to report on the consolidated results of operations for Canada Development Investment Corporation (CDEV) for the year ended December 31, 2014.

CDEV, through Canada GEN Investment Corporation, CDEV's wholly owned subsidiary continues to manage Canada's investment in General Motors. Upon request from our shareholder we paid a dividend in kind of 37 million GM common shares, by way of a transfer to Ontario. GM repurchased our GM preferred shares on December 31, 2014 for $ 467 million. Canada GEN now owns an approximate 5% holding in GM common shares.

CDEV continued to undertake work under the Government's ongoing review of corporate asset holdings. During the year, we continued our work to prepare Ridley Terminals Inc. and Dominion Coal Blocks in British Columbia for sale, acting as agent of the Government.

Canada Hibernia Holding Corporation (CHHC), our other major wholly-owned subsidiary, experienced a challenging, but overall successful year with oil prices falling significantly in the second half of the year. CHHC paid $108 million in provincial royalties, $33 million in net profits interest, $56 million in provincial and federal income taxes, as well as $97 million in dividends to CDEV, $45 million lower than in 2013, due to lower oil revenues and increased expected capital expenditures.

In 2014 CDEV paid $745 million in dividends and paid a dividend in kind of $1.42 billion. Cash was generated from proceeds from the sale of GM preferred shares, dividends from GM common and preferred shares and CHHC profits.

Canada Eldor Inc., our third wholly-owned subsidiary, which is responsible for administration of outstanding issues pursuant to prior divestitures, continued to reimburse Cameco for their mine site restoration costs for work near Uranium City, Saskatchewan.

During 2014 CDEV did not borrow from the Government nor did it receive any appropriations.

On behalf of the Board of Directors,

N. William C. Ross
Chairman
Canada Development Investment Corporation

March 5, 2015

Directors and Officers as at March 5, 2015

Minister Responsible for CDEV

The Honourable Joe Oliver
Minister of Finance

Board of Directors

N. William C. Ross, LL.M. [2] [3]
Chairman
Canada Development Investment Corporation
Senior Counsel
WeirFoulds LLP
Toronto, Ontario

John James Hillyard, MBA [2] [3]
Director
St. John's, Newfoundland and Labrador

Ted Howell, CPA, CA, MBA [1] [3]
Director
St. John's, Newfoundland and Labrador

Mary Beth Montcalm, PhD [2]
Director
Toronto, Ontario

Mary Ritchie, FCA [1]
CEO
Richford Holdings Ltd.
Edmonton, Alberta

Benita M. Warmbold, FCPA, FCA [1] [2]
Senior Managing Director and CFO
Canada Pension Plan Investment Board
Toronto, Ontario

Nicholas Wemyss, PGeo [2] [3]
Director
Victoria, British Columbia

Officers

Michael Carter
Executive Vice-President

Andrew Stafl, CPA, CA
Vice-President, Finance

Zoltan Ambrus
Vice-President

Patrice Walch-Watson
Corporate Secretary

Committees of the Board

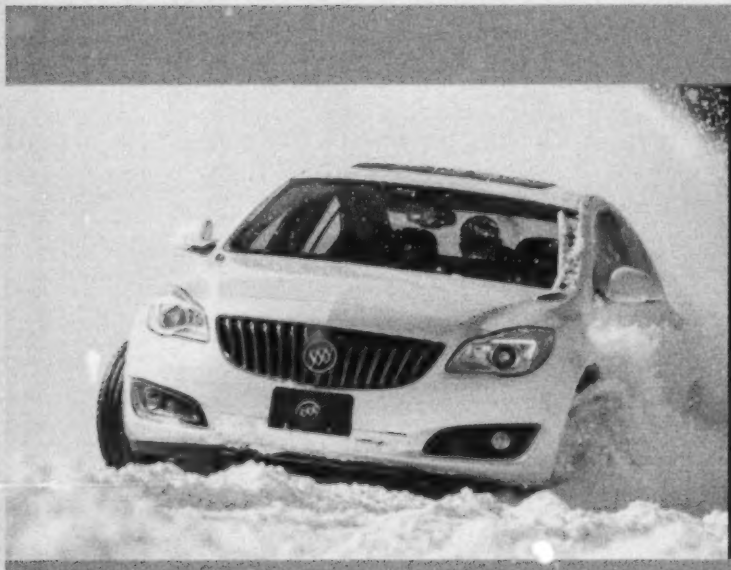
[1] Audit Committee
[2] Nominating and Governance Committee
[3] Human Resources and Compensation Committee

CDEV 2014 Overview

Our Vision: To be the Government of Canada's primary resource for the evaluation, management and divestiture of its commercial assets.

Our Mission: Acting in the best interests of Canada, on behalf of the Minister of Finance, we bring excellent business judgement and commercial practices to the evaluation, management and divestiture of assets of the Government of Canada.

Canada GEN paid a Dividend in Kind of 37 million GM common shares. The market value of the remaining 73 million shares decreased during the year by approximately $200 million.



CDEV Board of Directors

Back row: T. Howell, B. Warmbold, W. Ross, M. Ritchie
Front row: J. Hillyard, M.B. Montcalm, N. Wemyss

Canada Hibernia Holding Corporation generated $262 million in net crude oil revenue during the year with sales volume of 3.7 million barrels.

We continued to prepare the sale processes for government assets, working together with government officials and our advisors.

Corporate Governance Practices

CDEV (formerly "CDIC") reports to Parliament through the Minister of Finance. In November 2007, the Minister informed CDEV that "going forward, the operations of the CDIC should reflect a future focused on the ongoing management of its current holdings in a commercial manner, providing assistance to the government in new directions suited to CDIC's capabilities, while maintaining the capacity to divest CDIC's existing holdings, and any other government interests assigned to it for divestiture, upon the direction of the Minister of Finance". Since 2007, the Corporation has carried out new assignments, including acquiring and divesting assets and providing advice to the government on other government interests.

CDEV's Board of Directors supervises and oversees the conduct of the business and affairs of CDEV. The Board currently consists of the Chairman and six other directors. The members of the Board bring significant public and private experience, skills and expertise to their roles. The Chairman of the Board assesses the effectiveness of the Board and its committees with input from all of the directors. All members of the Board are independent of CDEV management.

Attendance at directors' meetings is outstanding and each director dedicates appropriate time outside of board meetings to the affairs and governance of the Corporation. CDEV and each subsidiary have separate and active boards of directors that meet regularly.

The Board annually reviews and approves the Corporate Plan of the Corporation and monitors its implementation over the planning period, evaluating the strategic direction in light of the changing business environment and assignments provided to it. Risks are identified and managed throughout the year. The Board conducts an annual retreat meeting where the directors consider, among other things, the goals of the Corporation from a strategic point of view.

To assist it in carrying out its stewardship of CDEV, the Board has established three committees, being the Nominating and Governance Committee, the Human Resources and Compensation Committee and the Audit Committee. The Nominating and Governance Committee deals with matters related to corporate governance. It continues to review CDEV's governance practices in the spirit of continuous improvement and to address new requirements. In addition, this Committee assists in determining the desired composition and structure of the Board and recommending to the Governor in Council candidates for Board membership and for the position of Chair, as needed. The Human Resources and Compensation Committee assists the Board in matters pertaining to human resources and compensation strategy, policies and practices, including reviewing executive compensation. The Audit Committee monitors the integrity of the Corporation's consolidated financial statements and the maintenance of proper controls and accounting procedures of the Corporation and communicates directly with the Corporation's auditors.

The Board has an effective working relationship with CDEV's management. The allocation of responsibilities between the Board and management is reviewed on a regular basis. A Board of Directors' charter has been adopted which denotes roles and responsibilities, primarily in terms of Board stewardship.

Effective communication with the Crown and the public is conducted through the board-approved Corporate Plan, Corporate Plan Summary, and the Annual Report, as well as through the corporate website and an annual public stakeholders meeting. As well, meetings are held as required with the Minister of Finance and other Ministers and other officials of the Government of Canada.

Compensation paid to directors is set by Order in Council. The Board members receive an annual retainer for their services, plus a per diem for travel time, preparing for and attending meetings and other responsibilities as needed. Directors are also reimbursed for reasonable expenses incurred. CDEV will continue to monitor the government's evolving guidance in governance matters and public sector best practices and implement changes in its governance practices as required.

Canadian Environmental Assessment Act Compliance

The primary activities of CDEV involve the management of agency sales roles for the potential sale of certain government assets, involvement in the Government's Corporate Asset Management Review programme, in addition to administrative head office functions for itself and its subsidiaries.

Under section 67 of the *Canadian Environmental Assessment Act, 2012* (CEAA 2012), CDEV is required to conduct a determination of the significance of adverse environmental effects of any project it carries out or permits to be carried out on federal lands. CDEV undertakes a process to evaluate any such projects that would require assessment under section 67 and, consequently, reporting under section 71 of CEAA 2012. Based on that evaluation, CDEV has determined that none of its activities in 2013 or 2014 trigger these assessment or reporting obligations under CEAA 2012.

Management Discussion and Analysis of Results

The public communications of Canada Development Investment Corporation ("CDEV"), including this annual report, may include forward-looking statements that reflect management's expectations regarding CDEV's objectives, strategies, outlooks, plans, anticipations, estimates and intentions.

By their nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. In particular, any predictions, forecasts, projections or other elements of forward-looking statements may not be achieved. A number of risks, uncertainties and other factors could cause actual results to differ materially from what we currently expect.

Corporate Overview

CDEV, a federal crown corporation, was incorporated in 1982 to provide a commercial vehicle for Government equity investment and to manage commercial holdings of the Government. CDEV's primary objective is to carry out its activities in the best interests of Canada, operating in a commercial manner. In addition to certain activities of our own, we have three wholly-owned subsidiaries for which we are responsible: Canada Hibernia Holding Corporation ("CHHC"), Canada Eldor Inc. ("CEI"), and Canada GEN Investment Corporation ("GEN"). CHHC owns and manages the federal government's interest in the Hibernia Development Project ("Hibernia"). CEI has no operations, but has responsibility for servicing liabilities, chiefly arising from an agreement of purchase and sale with Cameco Inc. entered into in 1988. GEN was incorporated in 2009 and holds common and, until December 2014, preferred stock of General Motors Company ("GM").

Since CDEV's inception in 1982, we have been effective in the management and divestiture of corporate interests of the Crown. The assets sold on behalf of the Crown by CDEV through 2014 include Canadair Limited, de Havilland Aircraft of Canada Limited, Teleglobe Canada, Fishery Products International Limited, Canada Development Corporation, Nordion International Inc., Telesat Canada, shares of Cameco Corporation, interests in Chrysler and a portion of our shareholdings in GM. Proceeds to the Crown from these divestment activities totaled approximately $4.9 billion through 2014. In addition, CHHC has paid a total of $1.90 billion in cumulative dividends from operations. Since 2010 GEN has paid $0.3 billion in dividends from dividend income earned on GM shares.

CDEV has a management team based in Toronto headed by the Executive Vice-President, whose role is to work closely with external consultants, contractor specialists and the Board to ensure the effective functioning of CDEV and its subsidiaries. CHHC has a management team based in Calgary that is experienced in the oil industry. This team, headed by CHHC's President and CEO, provides expertise in technical, marketing, transportation and financial areas of the operation.

Corporate Performance

Key Objectives from the 2014 Corporate Plan:

- Manage our working interest in the Hibernia oil field through our subsidiary CHHC and ensure that this asset is ready for sale when deemed appropriate.
- Manage our holdings in GM through GEN in a commercial manner and ensure that these assets are ready for sale when the market and other conditions are suitable for such a disposition.
- Continue to oversee the management of CEI's obligations.
- Manage the sales processes of government assets including the potential sales of Ridley Terminals Inc. and Dominion Coal Blocks.
- Continue our involvement in the Government's Corporate Asset Management Review ("CAMR") programme as requested by the Minister of Finance.
- Maintain our ability to perform all tasks given to us in an efficient manner.
- Remain available and prepared to address the needs of the Government for any future endeavour that is suitable given our capabilities and expertise.

Performance

We and our subsidiaries continue to manage our investments and obligations as detailed below:

Canada Investment Development Corporation

We hired financial and legal advisors and are preparing the sales processes for the potential sale of government assets in consultation with the ministries responsible for the assets. For CAMR projects, we retained advisors to provide financial, legal or technical analysis and reviewed their reports prior to their submission to the Minister. We remain prepared to undertake endeavours suitable for our capabilities and expertise and perform all of our activities in an efficient manner.

We declared dividends of $2.17 billion in 2014, of which $1.42 billion was a dividend in kind of one-third of our GM common shares. The remaining dividends were largely generated from the cash proceeds from the redemption of GM preferred shares, dividends from GM common and preferred shares and earnings from CHHC.

Canada Hibernia Holding Corporation

CHHC's after-tax profit of $135 million in 2014 was lower than $174 million recorded in 2013 as the result of lower net crude oil revenue and higher depletion and depreciation expense.

Net crude oil revenue, after deducting marketing fees, royalties and net profits interest, declined 16% to $262 million from $313 million in 2013. The decrease is due mainly to lower Hibernia oil production, and also to lower oil prices particularly in the second half of the year. CHHC sold 3.65 million barrels in 2014 as compared to 4.30 million barrels in 2013, a decrease of 15%, consistent with lower Hibernia production averaging 115,500 barrels per day compared to 135,500 barrels per day in 2013. Production was lower due to predicted decline of the Hibernia Main Field and delay of Hibernia Southern Extension Unit ("HSE Unit") production additions associated with drilling delays.

CHHC sells its oil based on the Dated Brent benchmark price for crude oil, in US dollars. While the price of Dated Brent crude decreased 9% to average US $99 per barrel from US $109 per barrel in 2013, CHHC's average realized price declined only 3% to $111 per barrel from $115 per barrel in 2013 due to the positive exchange rate impacts from a weaker Canadian dollar. CHHC does not enter into fixed price commodity (or exchange rate) contracts and sells its oil at market prices.

Higher depletion and depreciation expense of $47 million in 2014 compared to $43 million in 2013 is due to a higher depletion rate per barrel on account of lower average remaining oil reserves and higher capital costs.

CHHC paid dividends to CDEV of $97 million during 2014 as compared to $142 million in the prior year, reflecting lower net crude oil revenues, higher capital expenditures and working capital needs.

During 2014, capital investments were directed toward the drilling of water injection wells in the HSE Unit, drilling additional well pairs in the Hibernia Main Field, and planning for the future development of the Ben Nevis Avalon ("BNA") reservoir in both fields. In the near term, Hibernia owners will continue to focus on the full development of the HSE Unit including the drilling of both water injection wells and producing oil wells, the installation of additional Unit subsea equipment, continued drilling and development activities in the Hibernia Main Field and completion of the gas lift system.

Canada Eldor Inc.

There was no significant change in the management of CEI's liabilities. In 2014, the liability for site restoration increased $3 million primarily due to an increase in estimated costs. CEI continues to pay for costs relating to the decommissioning of former mine site properties in Saskatchewan and for retiree benefits of certain former employees. A plan is in place to undertake work that should allow for the eventual transfer of the mine site properties to the Institutional Control Program of the Province of Saskatchewan within nine years. CEI holds cash and cash equivalents and funds within the Consolidated Revenue Fund of $28 million to pay for CEI's total estimated liabilities of $21 million.

Canada GEN Investment Corporation

At year end, GEN held approximately $2.97 billion of the outstanding common shares of GM. On December 31 2014, GM redeemed all of the preferred shares held by GEN for proceeds of $467 million. In December 2014, GEN declared and paid a dividend in kind of 36,694,915 GM common shares. The dividend in kind was recorded at the fair value price of $33.23 per share for a total value of $1.42 billion. The transaction resulted in a gain being recognized in profit on derecognition of the common shares of $858 million. GEN earned dividend income of $189 million in 2014 from its GM common and preferred share holdings. GM initiated a quarterly dividend of US $0.30 per common share during the first quarter of 2014.

GEN will act to dispose of the GM holdings in a commercial manner and considering the Government's policy pronouncements. During 2014, GM common shares traded in a range of approximately US $29 to US $41 per share. GEN retains a financial advisor to provide advice to management regarding the investment.

See the table in the Financial Statements section for further information on the historic values of the GM common shares.

Summary of 2014 Operational Metrics

$ Millions (unless noted otherwise)	2014 Plan	2014	2013	Y/Y %	Explanation of changes
Net crude oil revenue	236.9	262.3	312.9	-16%	Negative volume and price variances reduced revenue
Oil Sales Volume (million barrels)	3.4	3.7	4.3	-15%	Reduced production was realized at Hibernia Oil Project
Oil Sales Price ($US/barrel)	101	101	111	-9%	World oil prices fluctuated significantly in 2014
Oil Sales Price ($C/barrel)	104	111	115	-3%	A favourable US/CAD FX rate change occurred in 2014
Dividend Income	37.3	189.0	37.4	405%	GM common share dividends were not expected in 2014 Plan
Oil Operating Expense	26.3	26.1	25.5	2%	Minimal variance was experienced
Oil Capital Expenditures	70.6	50.0	34.9	43%	Certain projects were deferred.
Administrative Expenses *	4.7	11.1	12.4	-10%	Project activity was lower in 2014; Recovery of certain project costs did not occur as planned

* Includes professional fees, salaries and benefits and other expenses.

Analysis of External Business Environment

The ongoing management of our holdings will be dependent on market and economic conditions specific to the underlying company or investment.

CHHC derives its cash flow exclusively from oil production from the Hibernia project assets and operations, including Hibernia field production and facilities. Cash flow fluctuates depending on oil production volumes, crude oil prices (including any premium or discount for Hibernia crude), the USD/CAD exchange rate, royalty and net profits interest burden, operating costs, income tax rates, and capital expenditure levels. CHHC is also a party to operating, royalty and other agreements, and is affected by regulatory changes under the Canada-Newfoundland and Labrador Offshore Petroleum Board and other regulators.

Any future realization of value for the GM investment will depend upon both the capabilities of the management of GM and the health of the automotive markets in which it competes. GM operates in an environment that is dependent on consumer spending. The economic environment in 2014 in North America improved from 2013 as evidenced by US light vehicle sales increasing 11% to 16.5 million units. The S&P 500 index was up approximately 11% from December 2013 (1,848 index value) to December 2014 (2,059). The GM common share price decreased 15% in 2014 from approximately US $41 per share at the end of 2013 to approximately US $35 per share at the end of 2014.

CEI will be affected by ongoing changes in the regulatory requirements enacted in particular by the Canadian Nuclear Safety Commission and the Government of Saskatchewan.

Risks and Contingencies

As with any oil development project, CHHC's interest in the Hibernia project faces geological and production risks. These particularly apply to the HSE Unit and its reserves, which have not yet been fully developed. The operator of the project maintains high standards in all aspects of the operation including safety, efficiency and environmental protection. CHHC employs prudent risk management practices in consultation with the operator and maintains suitable insurance coverage that it regards as economically sound.

Another significant risk to CHHC's earnings and cash flow is the change in crude oil prices which can fluctuate due to global economic events and conditions. A $1.00 per barrel change in the price of oil realized by CHHC would impact earnings before tax by $2.5 million ($2.7 million in 2013). CHHC does not engage in crude oil hedging activities. However, given the relatively low cost of production, changes in crude oil prices are not likely to affect CHHC's ability to meet its obligations.

The present value cost for decommissioning and abandonment of the Hibernia wells and facilities of $96 million is estimated based on known procedures and costs today for undertaking the decommissioning in approximately the year 2055. It is possible that these costs may change materially before decommissioning due to regulatory changes, technological changes and inflation among other variables. CHHC has deposited $97 million with the Consolidated Revenue Fund to specifically provide for decommissioning and abandonment costs. CHHC is dependent on oil tankers to ship crude oil to its customers or to the Newfoundland Transshipment facility. To reduce single source tanker risk in case of reduced tanker availability, CHHC has entered into agreements to access alternate shipping services.

The investment in GM common shares is subject to significant fluctuations in value due to overall stock market performance and to risks of the automobile industry and the relative performance of GM within it. Changes in share price do not impact GEN's cash flow or the ability to meet its obligations. GEN has not undertaken hedging of its GM holdings.

Almost all of GEN's assets and the revenues of GEN and CHHC are impacted by foreign exchange fluctuations. CHHC's crude oil sales are priced in US dollars. Dividends from the GM preferred and common shares are received in US dollars. The assets of GEN are denominated in US dollars. As GEN's assets are divested, any future cash proceeds will be impacted by changes in the exchange rate. The CAD/USD exchange rate increased to 1.1601 at December 31, 2014 from 1.0636 on December 31, 2013, a 9% appreciation in the USD.

CEI is subject to liabilities due to its undertakings to Cameco as part of a 1988 Purchase and Sale agreement. The $19 million provision determined for mine site restoration is based on estimates for expected restoration and monitoring work over a nine year period. The actual costs may vary materially due to changes in inflation, changes in cost estimates in a difficult northern environment and changes in regulatory requirements. CEI has deposited $22 million with the Consolidated Revenue Fund from which unknown future liabilities could be settled.

Risks and Contingencies (continued)

The two contingencies disclosed in our financial statements have been analyzed by management and our legal counsel. Management believes that the probable resolution will be favourable to CDEV and its subsidiaries.

Financial Statements for the Period Ended December 31, 2014

The consolidated financial statements for the year ended December 31, 2014 with comparative figures for 2013, have been prepared in accordance with International Financial Reporting Standards. Consolidated net revenue for the 2014 was $1,312 million compared to revenue of $1,032 million in the prior year. The increase is largely attributable to a gain on derecognition of common shares and higher dividend revenue. In the fourth quarter of 2014 we recorded a gain on derecognition of common shares of $858 million as a result of a dividend in kind of GM common shares. In the prior year, we recorded a gain of $680 million on the sale of GM common shares. Dividend revenue in 2014 increased to $189 million compared to $37 million in 2013. In 2014, GEN received dividends on the GM common shares of $147 million whereas no dividends were received on the common shares in the 2013. Net crude oil sales decreased by 16% to $262 million from $313 million in 2013 due to a 15% reduction in volumes sold combined with a 3% decrease in realized oil price.

Total expenses for the year, excluding finance costs and the change in fair value of the GM preferred shares, were $88 million, compared to $84 million in the prior year. The increase is largely due to increases in the change in estimates of provision for site restoration and an increase in depletion and depreciation. The provision expense for site restoration was $4 million compared to a reversal of $2 million in 2013 due to an increase of estimated costs. Depletion and depreciation expense increased to $47 million from $43 million in 2013, due mainly to a higher depletion rate per barrel. This was partly offset by a foreign exchange gain of $1 million in the current year compared to a $4 million loss in 2013. The foreign exchange loss in the prior year related primarily to the sale of GM common shares which was transacted in US dollars. Operating and production expenses increased slightly over the prior year due to higher fuel costs associated with crude oil tanker operations.

In 2014, GEN experienced an $18 million increase in the fair value of the GM preferred shares held, comprised of a foreign exchange gain of $38 million, offset by a fair value loss of $20 million. The preferred shares, which were redeemed by GM on December 31, were valued at US $25 per share upon redemption at December 31, 2014 compared to US $26.20 at December 31, 2013. In 2013, GEN had a $30 million unrealized gain on the preferred shares, due to a fair value gain of $1 million and an unrealized foreign exchange gain of $29 million. The market value of the GM common shares investment decreased to $2.97 billion at December 31, 2014 from $4.79 billion at December 31, 2013 due to a reduction in the number of shares held as a result of the dividend in kind of GM common shares and a decrease in the market price of GM shares, adjusted for foreign exchange. The change in the value of the GM common share investment is reflected as a loss in other comprehensive income (OCI) of $1,252 million for the year ended December 31, 2014. In 2013, OCI reflected an increase of $1,227 million in the value of the GM common share investment. For more details on OCI changes relating to the GM common shares please see the following table:

GM Common Shares value and OCI

Quarter ending	# of shares	Price GM Common Shares (US$) [2]	US exchange rate [1]	Investment Value (C$ millions)	Quarterly OCI/(loss) (C$ millions)	Year-to-date OCI/(loss) (C$ millions)
31-Dec-10	140,084,746	$33.94 (Adj)	0.9946	4,729		
2011						
31-Mar-11	140,084,746	$29.68(Adj)	0.9718	4,040	(688)	(688)
30-Jun-11	140,084,746	$30.37	0.9643	4,102	62	(626)
30-Sep-11	140,084,746	$20.20	1.0389	2,940	(1,163)	(1,789)
31-Dec-11	140,084,746	$20.28	1.0170	2,889	(51)	(1,840)
2012						
31-Mar-12	140,084,746	$25.64	0.9991	3,589	699	699
30-Jun-12	140,084,746	$19.72	1.0191	2,815	(773)	(74)
30-Sep-12	140,084,746	$22.75	0.9837	3,135	320	246
31-Dec-12	140,084,746	$28.82	0.9949	4,017	882	1,127
2013						
31-Mar-13	140,084,746	$27.81	1.0156	3,957	(60)	(60)
30-Jun-13	140,084,746	$33.34	1.0512	4,910	953	893
10-Sep-13	*(30,000,000)*	*$36.65*	*1.0357*		*(680)*	[3]
30-Sep-13	110,084,746	$35.95	1.0285	4,070	300	513
31-Dec-13	110,084,746	$40.87	1.0636	4,785	715	1,228
2014						
31-Mar-14	110,084,746	$34.42	1.1053	4,188	(597)	(597)
30-Jun-14	110,084,746	$36.29	1.0676	4,265	77	(520)
30-Sep-14	110,084,746	$31.93	1.1208	3,940	(325)	(846)
22-Dec-14	*(36,694,915)*	*$33.23*	*1.1643*		*(858)*	[4]
31-Dec-14	73,389,831	$34.90	1.1601	2,971	452	(1,252)

Notes

(1) exchange rate used is Bank of Canada noon rate (USD in CAD)

(2) quoted closing bid price per share at quarter end (transaction price Sept 10)

(3) gain on shares sold on Sept 10/13 transferred to profit and loss

(4) gain on derecognition of common shares relating to dividend in kind transferred to profit and loss

Cash and cash equivalents as at December 31, 2014 increased to $609 million compared to $102 million at December 31, 2013 largely due to funds held from preferred share redemption. Accounts receivable as at December 31, 2014 decreased to $39 million compared to $58 million at December 31, 2013 due to a reduction in crude oil sales outstanding at the end of the period. Property and equipment of $160 million at December 31, 2014 increased by $35 million as compared to December 31, 2013 primarily due to capital expenditures and an increase in decommissioning costs less depletion and depreciation. Income taxes recoverable increased to $12 million at December 31, 2014 from $1 million at December 31, 2013 resulting from installment payments in excess of current year taxes payable and prior year income tax refunds.

During 2014 the decommissioning obligation of CHHC increased by $31 million to $96 million primarily due to a revision in the discount rate used in its calculation. The discount rate used at year end was 2.33%, versus 3.24% used at December 31, 2013.

We declared cash dividends to the Government of $745 million during 2014. We also paid a dividend in kind of GM common shares of $1,420 million. The cash dividends were funded from dividends received on the GM preferred and common shares held, CHHC earnings, and proceeds from the redemption of the GM preferred shares. The dividends declared related to the redemption of the preferred shares were paid after year end which led to higher cash balances at year end. Dividends paid in the comparative period in 2013 were $1,304 million including $1,131 million in dividends related to the sale of the GM common shares.

Management's Responsibility For Financial Statements

The accompanying consolidated financial statements of Canada Development Investment Corporation ("CDEV") are the responsibility of management and were authorized for issue by the Board of Directors on March 5, 2015. The consolidated financial statements have been prepared by the Corporation in accordance with International Financial Reporting Standards. The financial statements of the Corporation's three wholly-owned subsidiaries for which it has responsibility have been consolidated with those of the Corporation. When alternative accounting methods exist, the Corporation has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments. The Corporation has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with information contained in the consolidated financial statements.

CDEV maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the consolidated financial records are reliable, form a proper basis for the preparation of consolidated financial statements and that CDEV's assets are properly accounted for and adequately safeguarded.

The Board of Directors carries out its responsibilities for the consolidated financial statements in this report principally through its Audit Committee. The Audit Committee reviews CDEV's annual consolidated financial statements and reports its findings to the Board for its consideration and approval. The Audit Committee also meets with the Corporation's auditors to discuss auditing matters and financial reporting issues. Due to its size, and as permitted by Order in Council, CDEV is exempt from the requirement to carry out internal audits but has carried them out periodically on the direction of the Board.

These consolidated financial statements have been audited by the Corporation's auditors, the Auditor General of Canada and KPMG LLP, whose report is presented separately.

As Executive Vice-President of CDEV and Vice-President, Finance, we have reviewed its consolidated financial statements and based upon our knowledge, having exercised due diligence, believe they fairly present in all material respects the financial position as at December 31, 2014, and financial performance and cash flows for the year ended December 31, 2014.

Michael Carter
Executive Vice-President
Canada Development Investment Corporation

Andrew Stafl, CPA, CA
Vice-President, Finance
Canada Development Investment Corporation

March 5, 2015

Auditor General of Canada
Vérificateur général du Canada

KPMG

Independent Auditors' Report

To the Minister of Finance

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Canada Development Investment Corporation, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Development Investment Corporation as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of Canada Development Investment Corporation and its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, any directives issued by the Governor in Council to the Canada Development Investment Corporation, and the articles and by-laws of Canada Development Investment Corporation and its wholly-owned subsidiaries.

Robert Wilson, CPA, CA
Principal
for the Auditor General of Canada

5 March 2015
Ottawa, Canada

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

CDEV

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

Consolidated Financial Statements of Canada Development Investment Corporation

December 31, 2014

Consolidated Statement of Financial Position

As at December 31
(Thousands of Canadian Dollars)

		2014		2013
Assets				
Current assets:				
Cash and cash equivalents (note 5)	$	609,420	$	101,768
Accounts receivable		38,525		58,205
Income taxes recoverable		12,096		902
Inventory		703		3,017
Prepaid expenses		293		321
Cash on deposit in the Consolidated Revenue Fund (note 6)		4,228		4,049
		665,265		168,262
Non-current assets:				
Cash on deposit in the Consolidated Revenue Fund (note 6)		114,633		118,831
Cash and cash equivalents held in escrow (note 7)		5,969		5,969
Property and equipment (note 8)		159,594		124,431
Investments (note 9)		2,971,370		5,234,310
Deferred tax asset (note 11)		13,976		9,841
		3,265,542		5,493,382
	$	3,930,807	$	5,661,644
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities		27,318	$	27,195
Dividend payable (note 19)		466,989		-
Finance lease obligation		-		2,062
Current portion of defined benefit obligation		230		270
Current portion of provision for site restoration (note 10(b))		3,976		3,748
		498,513		33,275
Non-current liabilities:				
Provision for decommissioning obligations (note 10(a))		95,936		64,676
Provision for site restoration (note 10(b))		15,417		13,047
Defined benefit obligation		1,820		1,925
		113,173		79,648
Shareholder's equity:				
Share capital (note 12)		1		1
Contributed surplus (note 12)		1,726,527		2,757,143
Accumulated deficit		(255,545)		(308,885)
Accumulated other comprehensive income		1,848,138		3,100,462
		3,319,121		5,548,721
Commitments (note 15)				
Contingencies (note 16)				
Subsequent event (note 21)				
	$	3,930,807	$	5,661,644

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board: _____ Director _____ Director

Consolidated Statement of Comprehensive Income

Year ended December 31
(Thousands of Canadian Dollars)

		2014		2013
Revenue:				
Net crude oil revenue (note 14)	$	262,343	$	312,895
Dividends (note 9)		189,006		37,372
Gain on derecognition of investment in common shares (note 9)		858,099		-
Gain on sale of investment in common shares (note 9)		-		679,601
Interest income		2,542		2,155
		1,311,990		1,032,023
Expenses:				
Depletion and depreciation (note 8)		47,458		43,234
Production and operating expenses (note 14)		26,094		25,497
Change in fair value of investment in preferred shares (note 9)		(17,989)		(30,000)
Professional fees		6,546		8,276
Foreign exchange loss (gain)		(627)		4,376
Salaries and benefits		3,468		3,215
Change in estimates of provision for site restoration (note 10)		4,161		(1,894)
Other expenses		1,074		908
Defined benefit expense		80		77
		70,265		53,689
Finance costs:				
Unwind of discount on decommissioning obligations (note 10)		1,978		2,416
Interest on finance lease obligation		35		88
Unwind of discount on provision for site restoration (note 10)		267		237
		2,280		2,741
Profit before income taxes		1,239,445		975,593
Income taxes (note 11):				
Current		55,756		74,709
Deferred		(4,135)		(5,463)
		51,621		69,246
Profit		1,187,824		906,347
Other comprehensive (loss) income:				
Items that will not be reclassified to profit or loss:				
Net actuarial gains on defined benefit obligations		-		83
Items that may be reclassified subsequently to profit or loss:				
Change in fair value of investment in common shares		(394,225)		1,907,410
Gain on derecognition of investment in common shares transferred to profit or loss (note 9)		(858,099)		-
Gain on sale of investment in common shares transferred to profit or loss		-		(679,601)
		(1,252,324)		1,227,809
		(1,252,324)		1,227,892
Comprehensive (loss) income	$	(64,500)	$	2,134,239

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholder's Equity

Year ended December 31
(Thousands of Canadian Dollars)

		2014		2013
Share capital				
Balance, beginning and end of year	$	1	$	1
Contributed surplus				
Balance, beginning of year		2,757,143		3,216,294
Dividends (note 12)		(466,989)		(459,151)
Dividend in kind (note 12)		(561,616)		-
Transfer to accumulated deficit (note 12)		(2,011)		-
Balance, end of year		1,726,527		2,757,143
Accumulated deficit				
Balance, beginning of year		(308,885)		(370,768)
Profit		1,187,824		906,347
Actuarial gains (losses) on defined benefit obligations		-		83
Dividends		(278,396)		(844,547)
Dividend in kind (note 9)		(858,099)		-
Transfer from contributed surplus (note 12)		2,011		-
Balance, end of year		(255,545)		(308,885)
Accumulated other comprehensive income				
Balance, beginning of year		3,100,462		1,872,653
Gain on derecognition of investment in common shares transferred to profit or loss (note 9)		(858,099)		-
Gain on sale of investment in common shares transferred to profit or loss (note 9)		-		(679,601)
Change in fair value of investment in common shares		(394,225)		1,907,410
Balance, end of year		1,848,138		3,100,462
Total shareholder's equity	$	3,319,121	$	5,548,721

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended December 31
(Thousands of Canadian Dollars)

	2014	2013
Cash provided by (used in):		
Operating activities:		
Profit	$ 1,187,824	$ 906,347
Adjustments for:		
Depletion and depreciation	47,458	43,234
Income tax expense	51,621	69,246
Defined benefits paid in excess of expenses	(145)	(199)
Finance interest	35	88
Interest income from Consolidated Revenue Fund (note 6)	(981)	(1,068)
Unwind of discount on decommissioning obligations	1,978	2,416
Net foreign exchange loss (gain)	(83)	4,311
Change in fair value of investment in preferred shares	(17,989)	(30,000)
Gain on sale of investment in common shares (note 9)	-	(679,601)
Gain on derecognition of investment in common shares (note 9)	(858,099)	-
Change in provision for site restoration	4,428	(1,657)
Provisions settled	(3,527)	(1,792)
Income taxes paid	(66,950)	(73,665)
	345,570	237,660
Change in non-cash working capital (note 13)	24,870	(22,922)
	370,440	214,738
Financing activities:		
Dividends paid	(278,396)	(844,547)
Dividend paid from contributed surplus (note 12)	-	(459,151)
Finance interest paid	(35)	(88)
Lease obligation payments	(1,979)	(1,497)
	(280,410)	(1,305,283)
Investing activities:		
Proceeds on sale of investment in common shares	-	1,134,244
Proceeds on redemption of preferred shares (note 9)	466,989	-
Purchase of property and equipment (note 8)	(49,951)	(34,916)
Withdrawal from Consolidated Revenue Fund (note 6)	5,000	-
Change in non-cash working capital (note 13)	(4,416)	(4,340)
	417,622	1,094,988
Change in cash and cash equivalents	507,652	4,443
Cash and cash equivalents, beginning of year	101,768	97,325
Cash and cash equivalents, end of year	$ 609,420	$ 101,768
Supplementary disclosure of cash flow from operating activities:		
Amount of interest received during the year	$ 2,564	$ 2,139
Amount of dividends received during the year	$ 189,006	$ 37,372

The accompanying notes are an integral part of these consolidated financial statements.

1. Reporting entity:

Canada Development Investment Corporation ("the Corporation" or "CDEV") was incorporated in 1982 under the provisions of the *Canada Business Corporations Act* and is wholly-owned by Her Majesty in Right of Canada. The Corporation is an agent Crown corporation listed in Schedule III, Part II of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. In November 2007, the Minister of Finance informed CDEV that its mandate "should reflect a future focused on the ongoing management of its current holdings in a commercial manner, providing assistance to the Government of Canada ("Government") in new policy directions suited to CDEV's capabilities, while maintaining the capacity to divest CDEV's existing holdings, and any other government interests assigned to it for divestiture, upon the direction of the Minister of Finance". In late 2009, the Corporation began assisting the Department of Finance in its Corporate Asset Management Review programme involving the review of certain Government corporate assets.

The address of the Corporation's registered office is 79 Wellington Street West, Suite 3000, Box 270, TD Centre, Toronto, Ontario, M5K 1N2. The address of the Corporation's principal place of business is 1240 Bay Street, Suite 302, Toronto, Ontario, M5R 2A7.

The Corporation consolidates three wholly-owned subsidiaries: Canada Eldor Inc. ("CEI"), Canada Hibernia Holding Corporation ("CHHC"), and Canada GEN Investment Corporation ("GEN").

CEI was incorporated under the provisions of the *Canada Business Corporations Act*. It is subject to the *Financial Administration Act*, is an agent of Her Majesty in Right of Canada and is not subject to the provisions of the *Income Tax Act*. During 1988, CEI sold substantially all of its assets and operations to Cameco Corporation ("Cameco") in exchange for share capital of the purchaser and a promissory note. As a result of the sale of the Cameco shares and the assumption of certain of CEI's remaining debt by the Government in 1995, CEI is left with the net cash proceeds from the final sale of Cameco shares as its only significant asset. CEI's remaining obligations include site restoration and retiree defined benefit obligations.

CHHC was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by CDEV in March 1993. CHHC is subject to the *Financial Administration Act* and the *Income Tax Act*. CHHC's sole purpose is the holding and management of its interest in the Hibernia Development Project ("Hibernia Project"). The Hibernia Project is an oil development and production project located offshore Newfoundland and Labrador. CHHC holds an 8.5% working interest in the Hibernia Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. ("HMDC"). CHHC's interest in the Hibernia Project has been recorded in CHHC's financial statements which are consolidated into CDEV's financial statements.

In 2010, CHHC and other participants signed agreements with the Province of Newfoundland and Labrador (the "Province"), and received regulatory approval from the Canada-Newfoundland and Labrador Offshore Petroleum Board ("C-NLOPB") for further development of the Hibernia Southern Extension Unit ("HSE Unit"). CHHC's unit interest is 5.08%.

GEN was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by the Corporation on May 30, 2009. GEN is subject to the *Financial Administration Act* but is not subject to the *Income Tax Act*. GEN owns common shares of General Motors Company ("GM") and, until December 31, 2014, Series A Fixed Rate Cumulative Perpetual Preferred Stock of GM with a liquidation preference value of US$25/preferred share. GEN received the shares of GM as a result of loans made by Export Development Canada's Canada Account (a related party to CDEV and GEN) to GM.

2. Basis of preparation:

a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 5, 2015.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- inventory is measured at the lower of cost to produce or net realizable value

The methods used to measure fair values are discussed in note 3.

c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 8 – Property and equipment
- Note 10 – Provisions
- Note 16 – Contingencies

Considerable judgment is used in measuring and recognizing provisions and the exposure to contingent liabilities. Judgment is necessary to determine the likelihood that pending litigation or other claims will succeed, or a liability will arise and to quantify the possible range of the final settlement. Some uncertainties relate to CEI's future costs of fulfilling its obligations for site restoration including the estimation of future costs, including inflation, timing and other variables to complete restoration. Significant judgment is also necessary when determining whether there is an indication that a financial or non-financial asset may be impaired.

A provision is set up for decommissioning costs which will be incurred when certain of CHHC's tangible long-lived assets are retired. Assumptions, based on current economic factors which management believes are reasonable, have been made to estimate the future obligation. However, the actual cost of decommissioning is uncertain and cost estimates may change in response to numerous factors including changes in legal requirements, technological advances, inflation and the timing of expected decommissioning and restoration. The impact to comprehensive income over the remaining economic life of the assets could be significant due to the changes in cost estimates as new information becomes available. In addition, CHHC determines the appropriate discount rate at the end of each reporting period. This discount rate, which is not credit adjusted, is used to determine the present value of the estimated future cash outflows required to settle the obligation and may change in response to numerous market factors.

2. Basis of preparation: (continued)

d) Use of estimates and judgments: (continued)

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of oil reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Judgment was used in determining not to consolidate the results of PPP Canada Inc. ("PPP") which is wholly-owned by the Corporation as discussed in note 3(b).

When calculating the net revenues on which royalties are based, management must determine the appropriate eligible costs. This requires the use of judgment in the application of the Hibernia royalty agreements. The royalty audit and redetermination process can take several years to confirm such eligible costs. Accordingly, the final outcome could result in royalty amounts different from those initially recorded, thereby impacting the royalty expense in the year of such redeterminations.

Management has applied judgment in determining whether CHHC's joint arrangement, the Hibernia Project represents a joint venture or joint operation. This determination required judgment based on the structure of the arrangement including the existence of joint control, the legal form of any separate vehicle, the contractual rights and obligations of the parties to the arrangement, and other relevant facts and circumstances. Based on its evaluation, management has classified its joint arrangement as a joint operation.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently by the Corporation and its subsidiaries to all years presented in these consolidated financial statements, unless otherwise disclosed.

a) Changes in accounting policies:

The following accounting standards and amendments issued by the IASB are effective for the first time in the current financial year and have been adopted by the Corporation effective January 1, 2014. These pronouncements were adopted in accordance with the applicable transitional provisions with no impact on the Corporation's consolidated financial statements:

- Amendments to IAS 32, *Financial Instruments: Presentation* ("IAS 32")
  The amendments to IAS 32 clarify the meaning and the application of the IAS 32 criteria for offsetting financial assets and financial liabilities. The adoption of the amendments did not have any impact on the consolidated financial statements because of the nature of the Corporation's operations and the types of financial assets and financial liabilities that it holds.

- Amendments to IAS 36, *Impairment of Assets*
  The narrow-scope amendments clarify that the disclosures about the recoverable amount of impaired assets are only required where the recoverable amount of impaired assets is based on fair value less costs of disposal. The adoption of the amendments did not have any impact on the consolidated financial statements because the Corporation has not had any impairments relevant to this standard.

- IFRIC 21, *Levies* ("IFRIC 21")
  IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements. The adoption of IFRIC 21 had no impact on the consolidated financial statements.

3. Significant accounting policies: (continued)

b) Basis of consolidation:

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Corporation and all of its subsidiaries after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations controlled by CDEV. The Corporation controls an entity when it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity.

Although the Corporation owns all of the outstanding shares of PPP, it does not consolidate its operations because the Corporation does not meet the criteria for control of PPP. In May, 2008, the Governor-in-Council declared PPP a parent Crown Corporation for the purposes of Part X, except section 90, of the *Financial Administration Act*. As a result, the Corporation is not involved in PPP's operations and does not have the current ability to direct its activities. The Corporation is also not exposed (nor has rights) to variable returns from PPP.

c) Joint arrangements:

CHHC has a material joint operation, the Hibernia Project (including its interests in HMDC and the HSE Unit). The Hibernia Project explores for, develops and produces oil reserves from the Hibernia offshore oilfield, which is located east of St. John's NL, Canada. The activities of Hibernia are conducted jointly through HMDC, as operator and agent of the account maintained on behalf of the participants ("the joint account"). HMDC's principal place of business is located in St. John's, NL, Canada. The Hibernia Project is of strategic importance to CHHC as it is the Company's sole business activity from which it derives all of its crude oil revenues.

CHHC has an 8.5% working interest in the original Hibernia Project area (with a corresponding 8.5% equity interest in HMDC) and has a 5.08% unit working interest in the southern HSE Unit development. This unit interest ownership is subject to change as a result of future redeterminations.

Under the terms of the joint operation, CHHC has a direct share in the assets employed by the operation and is liable for its share of the liabilities incurred. Accordingly, CHHC has recorded in its financial statements its contractual share of the assets, liabilities, revenues and expenses of the joint operation.

All Hibernia Project expenditures, other than those costs relating to the transportation of oil, marketing fees, royalties, net profits interest, incidental net profits interest and insurance, are charged to the joint account which is the responsibility of the participants in proportion to their working interest. The joint account is funded directly by CHHC and the other participants.

d) Cash and cash equivalents:

Cash and cash equivalents include short-term investments, which are considered to be highly liquid investments with original maturities of three months or less.

e) Inventory:

Inventory of crude oil is an asset that is held for sale in the ordinary course of business, and is valued at the lower of cost to produce or net realizable value. Cost to produce includes production and operating expenses, transportation costs and depletion and depreciation. Crude oil lifted below or above CHHC's working interest share of production results in production underlifts or overlifts. Net underlifts are recorded at the lower of cost to produce or net realizable value in inventory and net overlifts are recorded in accounts payable and accrued liabilities at fair market value. CHHC follows the first-in, first-out basis of accounting for inventories.

3. Significant accounting policies: (continued)

f) Property and equipment:

i. Recognition and measurement:

Items of property and equipment, which include oil development and production assets, are measured at acquisition cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units ("CGU's") for impairment testing. The Corporation has grouped its development and production assets into one CGU. When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss.

ii. Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil interests represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

iii. Depletion and depreciation:

The net carrying value of property and equipment is depleted using the unit of production method by reference to the ratio of production in the period to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

The depletion and depreciation methods for certain oil production assets for the current and comparative periods are as follows:

Oil development assets and production facilities	Unit of production
Crude oil tanker	Straight line over life of lease

CHHC has estimated the useful life of the offshore production facilities, which includes the gravity base structure, topsides and offshore loading system, to be consistent with the reserve lives of the areas for which they serve, with the exception of facility turnarounds and major overhauls which may be necessary to extend the life of these facilities. As a result, CHHC includes the cost of these assets within their associated major component for the purpose of depletion using the unit of production method.

Leased assets that are recognized as finance leases are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Depletion and depreciation on assets under construction begins only when the asset is complete and is put into service.

3. Significant accounting policies: (continued)

g) Leased assets:

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Corporation's consolidated statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

h) Financial instruments:

(i) Recognition:

All financial assets and financial liabilities are initially recognized on the date at which the Corporation becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized or derecognized on a trade date basis.

Transaction costs of financial instruments at fair value through profit or loss are recognized in profit or loss immediately. Transaction costs of other financial instruments are included in the initial measurement of the financial instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability. The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(ii) Classification and measurement:

(a) Financial Assets

Financial instruments are, for measurement purposes, grouped into classes. The classification depends on the purpose and is determined at initial recognition. The Corporation has the following financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Derivatives are also classified as fair value through profit or loss unless they are designated as hedges. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Corporation designated its cash on deposit in the Consolidated Revenue Fund and its preferred shares of GM as fair value through profit or loss.

3. Significant accounting policies: (continued)

h) Financial instruments: (continued)

Held-to-maturity financial assets

Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Corporation from classifying investment securities as held-to-maturity for the current financial year. Classification of held-to-maturity occurs only when the Corporation has the intention and ability to hold the asset to maturity. Cash equivalents held in escrow are classified as held-to-maturity.

Loans and receivables

Loans and receivables, comprised of cash and cash equivalents and accounts receivable, are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The common shares of GM are designated as available-for-sale financial assets. This investment is carried at fair value with subsequent changes in fair value, other than impairment losses, recognized in other comprehensive income, and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(b) Financial liabilities

All of the Corporation's financial liabilities are classified as other financial liabilities and are initially measured at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition and measurement, these financial liabilities are measured at amortized cost using the effective interest method. The Corporation's financial liabilities consist of accounts payable and accrued liabilities.

(iii) Disclosures

Fair value measurements recognized in the consolidated statement of financial position are classified using a three level fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices available in active markets for identical assets and liabilities. Fair value of assets and liabilities included in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the change has occurred. The required disclosures are included in note 18(d).

3. Significant accounting policies: (continued)

i) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are recognized in the consolidated statement of comprehensive income.

For available-for-sale assets, if there is objective evidence of impairment, any losses recognized in other comprehensive income are reclassified to income. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be attributed objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss. For available-for-sale equity investments, impairment losses cannot be reversed.

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, development and production assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("CGU's"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

3. Significant accounting policies: (continued)

j) Foreign currency transactions:

Transactions in foreign currencies are translated to Canadian dollars at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the period end date exchange rates. Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized in other comprehensive income.

k) Provisions and contingencies:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are not recognized for future operating losses.

Decommissioning obligations:

The decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as unwind of discount on decommissioning obligations within finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized in the statement of financial position as part of property and equipment. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Corporation, or present obligations where it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

l) Income taxes:

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on profit before income taxes for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies: (continued)

m) Revenue recognition:

Revenue from the sale of crude oil is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. Revenue from the sale of crude oil is recognized when the bill of lading for a shipment is obtained. The bill of lading transfers the significant risks and rewards of ownership to the buyer. Net crude oil revenue is presented net of marketing fees, royalties and net profits interest.

Dividend income is recognized when the shareholder's right to receive payment is established. This occurs upon the dividend payment date for preferred shares and the dividend date of record for dividends on common shares.

n) Finance costs and income:

Finance costs comprise interest expense on finance lease, unwinding of the discount on decommissioning obligations, unwinding of the discount on provision for site restoration and impairment losses recognized on financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

4. Recent accounting pronouncements issued but not yet effective:

A number of new standards, amendments to standards and interpretations are effective for future annual periods, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Corporation are set out below. The Corporation does not plan to adopt these standards early.

IFRS 9, *Financial Instruments* ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The Corporation continues to evaluate the potential impact of IFRS 9 on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

In May 2014, the IASB issued IFRS 15 which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 is to be applied for annual periods beginning on or after January 1, 2017 using one of the following methods: retrospective or modified retrospective with the cumulative effect of initially applying the standard as an adjustment to opening equity at the date of initial application. The Corporation is evaluating the potential impact of these amendments on its financial statements.

Amendments to IAS 27, *Separate Financial Statements:* Equity Method in Separate Financial Statements ("IAS 27")

In August 2014 the IASB issued amendments to IAS 27 to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements. The amendments are applicable to annual periods beginning on or after January 1, 2016. The Corporation is evaluating the potential impact of these amendments on its financial statements.

Amendments to IFRS 10 *Consolidated Financial Statements* ("IFRS 10") and IAS 28 *Investments in Associates and Joint Ventures (2011)* ("IAS 28"): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In September 2014, IFRS 10 and IAS 28 were amended to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture. The amendments are applicable on a prospective basis to a sale or contribution of assets occurring in annual periods beginning on or after January 1, 2016. The Corporation is evaluating the potential impact of these amendments on its financial statements.

5. Cash and cash equivalents:

Cash and cash equivalents on the consolidated statement of financial position include cash, term deposits and bankers' acceptances. Interest revenue arising on cash and cash equivalents was earned at interest rates ranging from 0.9% to 1.4% for 2014 (2013 - 0.9% to 1.4%). The details are as follows:

		2014		2013
Bank balances	$	517,021	$	31,382
Short term investments		92,399		70,386
Cash and cash equivalents	$	609,420	$	101,768

6. Cash on deposit in the Consolidated Revenue Fund:

The Corporation has deposited cash in the Consolidated Revenue Fund ("CRF") of the Government of Canada established under Section 129(1) of the *Financial Administration Act*. Cash on deposit in the CRF is as follows:

		2014		2013
Balance, beginning of year	$	122,880	$	121,812
Allocated interest		981		1,068
Withdrawal		(5,000)		-
Balance, end of year	$	118,861	$	122,880
Represented by:				
Current portion	$	4,228	$	4,049
Non-current portion		114,633		118,831
	$	118,861	$	122,880

At December 31, 2014, the balance in the CRF consists of deposits of $21,520 held for CEI and $97,341 held for CHHC.

CEI has deposited cash in the CRF to provide for obligations resulting from the sale of assets and other potential future liabilities related to site restoration. The non-current portion in the CRF has been allocated by CEI to provide for non-current liabilities and other potential future liabilities related to site restoration obligations.

CHHC has deposited cash in the CRF to provide for future abandonment of the Hibernia facility and to provide for security against future risks. CHHC has reduced certain of its third party insurance coverage as a result of the risk fund.

Funds held in these accounts are interest bearing at a rate of 90% of the three-month treasury bill tender rate. The average annual interest rate was 0.82% during the year (2013 - 0.88%). Access to these funds is unrestricted.

7. Cash and cash equivalents held in escrow:

In the granting of drilling and other work authorizations associated with Hibernia development and production, the C-NLOPB requires evidence of financial responsibility. CHHC maintains an escrow account in the amount of $2,550 (2013 - $2,550) to satisfy this requirement. The C-NLOPB has the right to make claims against the cash equivalents held in escrow under certain circumstances and CHHC retains any interest earned on the account. The current escrow agreement will expire on June 1, 2015, and is renewed every three years.

Similarly the C-NLOPB requires a letter of credit as evidence that certain research and development commitments will be carried out. CHHC maintains an escrow account in the amount of $3,419 (2013 - $3,419) to secure the letter of credit and satisfy this obligation. The C-NLOPB has the right to make claims on the letter of credit if sufficient qualifying commitments have not been made by the maturity date. CHHC retains any interest earned on the account.

8. Property and equipment:

	Oil development assets and production facilities	Crude oil tanker	Total
Cost			
Balance at December 31, 2012	$ 257,194	$ 13,547	$ 270,741
Cash additions for the year	34,916	–	34,916
Decommissioning adjustments	(30,858)	–	(30,858)
Balance at December 31, 2013	261,252	13,547	274,799
Cash additions for the year	49,951	–	49,951
Decommissioning adjustments	30,979	–	30,979
Balance at December 31, 2014	$ 342,182	$ 13,547	$ 355,729
Depletion and depreciation			
Balance at December 31, 2012	$ 99,394	$ 8,280	$ 107,674
Depletion and depreciation	39,934	2,760	42,694
Balance at December 31, 2013	139,328	11,040	150,368
Depletion and depreciation	43,260	2,507	45,767
Balance at December 31, 2014	$ 182,588	$ 13,547	$ 196,135
Carrying amounts:			
At December 31, 2013	$ 121,924	$ 2,507	$ 124,431
At December 31, 2014	$ 159,594	$ –	$ 159,594

The above table has been condensed by combining oil development assets with production facilities and the comparative figures have been similarly combined to conform to the current year presentation.

Certain costs have been excluded from the calculations of depletion and depreciation, including costs of equipment and facilities currently under construction of $10,633 at December 31, 2014 (2013 - $33,635). Future development costs of $809,000 (2013 - $804,900) have been included in the calculation. There was no impairment to property and equipment for the years ended December 31, 2014 and 2013. Oil development assets and production facilities include $80,455 (2013 - $49,476) of capitalized costs relating to decommissioning obligations, which will be depreciated over the life of the asset.

9. Investments:

	2014	2013
Financial assets at fair value through profit or loss:		
Preferred shares of GM	$ -	$ 449,000
Nil (2013 - 16,101,695) Series A Fixed Rate Cumulative Perpetual Preferred Stock Dividend rate 9.0% paid quarterly, liquidation preference value: US $25 per share		
Available-for-sale assets:		
Common shares of GM	2,971,370	4,785,310
73,389,831 common shares (2013 -110,084,746 common shares)		
	$ 2,971,370	$ 5,234,310

The changes in investment balances by each classification of financial instruments reflected in the consolidated statement of comprehensive income are as follows:

	2014	2013
Financial assets at fair value through profit or loss:		
Preferred shares of GM		
Foreign exchange gain	$ (37,847)	$ (29,000)
Fair value (gain) loss	19,858	(1,000)
	$ (17,989)	$ (30,000)
Available-for-sale assets (in Other Comprehensive Income):		
Common shares of GM		
Gain on derecognition of investment in common shares	$ (858,099)	$ -
Gain on sale of investment in common shares	-	(679,601)
Change in fair value of investment in common shares	(394,225)	1,907,410
	$ (1,252,324)	$ 1,227,809

Financial assets at Fair Value through profit or loss:

The GM preferred shares, which do not trade publicly, are designated as fair value through profit or loss. The change in value has been recorded in profit as a change in fair value of investment in preferred shares of $17,989 (2013 – $30,000 gain). On December 31, 2014, the shares were repurchased by GM at the liquidation preference value of US $25 per preferred share for total cash consideration of $466,989. Preferred share dividends from GM were received quarterly in US dollars. In 2014, GEN received $42,248 (2013 - $37,372) in preferred share dividends.

9. Investments: (continued)

Available-for-sale financial assets:

The investment in the common shares of GM is designated as available-for-sale financial assets.

The GM common shares have a quoted market price in an active market and, accordingly, the shares held at December 31, 2014 and 2013 were measured at fair value with any changes recorded in other comprehensive income. The balance in accumulated other comprehensive income at December 31, 2014 and 2013 relates solely to the changes in fair value of the GM common shares. On December 22, 2014 the Corporation declared and paid a dividend in kind of 36,694,915 GM common shares which, upon direction from the Government of Canada, were transferred to the Province of Ontario. The dividend in kind was recorded and the 36,694,915 common shares were derecognized at a price of US $33.23 per share which represented the fair value of the shares on that date for a total value of $1,419,715. Consequently, the gain on derecognition of these shares of $858,099 was reclassified from Accumulated Other Comprehensive Income to profit or loss.

GM commenced paying a quarterly dividend on the GM common shares beginning in March 2014. In 2014, GEN received $146,758 (2013 - $nil) in common share dividends.

Fair value of the GM common shares is determined by the last bid price for the security from the exchange where it is principally traded.

10. Provisions:

Changes to provisions for decommissioning obligations and site restoration were as follows:

		Decommissioning obligations		Site restoration
Balance at December 31, 2013	$	64,676	$	16,795
Additional provisions		668		5,453
Changes in estimates		3,177		(1,805)
Obligations settled		(1,697)		(1,830)
Changes in discount rate		27,134		513
Unwind of discount		1,978		267
Balance at December 31, 2014	$	95,936	$	19,393
Current		-		3,976
Non-current		95,936		15,417
Provisions	$	95,936	$	19,393

Sensitivity Analysis:
Changes to the discount rate or the inflation rate would have the following impact on the provision for decommissioning obligations at December 31 2014:

		One percent increase		One percent decrease
Discount rate	$	(31,563)	$	47,600
Inflation rate	$	47,223	$	(31,898)

10. Provisions: (continued)

a) Provision for decommissioning obligations of CHHC:

The provision for decommissioning obligations is based on CHHC's net ownership interest in wells and facilities and management's estimate of costs to abandon and reclaim those wells and facilities as well as an estimate of the future timing of the costs to be incurred. CHHC estimates the total future undiscounted liability to be $246,819 at December 31, 2014, (2013 - $239,063). Estimates of decommissioning obligation costs can change significantly based on factors such as operating experience and changes in legislation and regulations.

These obligations will be settled based on the expected timing of abandonment, which currently extends up to the year 2055 and is based upon the useful lives of the underlying assets. At December 31, 2014 a risk-free rate of 2.33% (2013 – 3.24%); and an inflation rate at December 31, 2014 of 2.0% (2013 – 2.0%) were used to calculate the provision.

b) Provision for site restoration:

Under the terms of the purchase and sale agreement in 1988 between CEI and Cameco, CEI is responsible for obligations relating to the sale of assets to Cameco. Provision for site restoration as at the date of the consolidated statement of financial position is related to the decommissioning of a former mine site. Cameco is responsible for the monitoring and management of this site. CEI accrues for these costs based on estimates provided by Cameco. These estimates are based on variables and assumptions which are subject to uncertainty including the time to completion and the costs over this period. The costs are estimated over a period ending in 2023 (2013 – 2023). The future estimate of costs for site restoration has been discounted at a rate of 1.34% (2013 – 1.95%) and an inflation rate of 2.0% (2013 – 2.0%) was used to calculate the provision at December 31, 2014. The current estimate for costs and the amount accrued as at December 31, 2014 is $19,393 (2013 - $16,795).

11. Income taxes:

CDEV, CEI and GEN are not subject to income tax in Canada. CHHC is subject to income tax. Dividends received by GEN are not subject to income tax within the United States.

a) Income tax expense:

The components of income tax expense are as follows:

		2014		2013
Current tax expense				
Current period	$	57,152	$	74,366
Adjustment for prior periods		(1,201)		343
Investment tax credit		(195)		–
	$	55,756	$	74,709
Deferred tax expense				
Origination and reversal of temporary differences		(4,469)		(5,463)
Adjustment to prior periods		700		-
Changes in tax rates applied to temporary differences		(366)		-
	$	(4,135)	$	(5,463)
Total income tax expense	$	51,621	$	69,246

11. Income taxes: (continued)

b) Reconciliation of effective tax rate

The statutory combined federal and provincial income tax rates applicable to CHHC remained stable at 28.2% in 2014 from 28.3% in 2013. A reconciliation of the amount recorded for income tax expense from the expected amount by applying the Company's combined federal and provincial income tax rate to profit before income tax is as follows:

		2014		2013
Net profit for the year (see note 20)	$	135,000	$	174,069
Total income tax expense		51,621		69,246
Profit before income tax	$	186,621	$	243,315
Income tax using CHHC's combined federal and provincial Canadian tax rate of 28.2% (2013 - 28.3%)	$	52,683	$	68,858
Non-deductible expenses and other		(10)		(7)
Investment tax credits		(195)		(406)
Under-provided in prior periods		147		801
Revisions and reassessments to prior years' tax returns		(650)		–
Differences attributed to rate differences and other		(354)		–
	$	51,621	$	69,246

Unrecognized deferred tax assets:

At December 31, 2014, CHHC has not recognized the tax benefit in respect of investment tax credits, net of tax on utilization, associated with experimental development claims for the 2006 taxation year. The claim for investment tax credits is under dispute with the Canada Revenue Agency and management has determined the recoverability of these credits is uncertain. Unrecognized tax assets totaled $1,384 at December 31, 2014 and 2013.

Recognized deferred tax assets (liabilities):

Deferred tax assets refer to estimated deductible temporary differences between carrying value and tax basis of certain assets. The amount of deferred tax assets and liabilities are as follows:

	Inventory	Property and equipment	Provisions	Accrued liabilities	Total
At December 31, 2013	$ (625)	$ (8,954)	$ 18,303	$ 1,117	$ 9,841
Credited/ (charged) to the statement of comprehensive income	480	(6,977)	8,780	1,852	4,135
At December 31, 2014	$ (145)	$ (15,931)	$ 27,083	$ 2,969	$ 13,976

12. Share capital and contributed surplus:

	2014	2013
Share Capital:		
Authorized - unlimited number of common shares		
Issued and fully paid - 101 common shares (2013 - 101)	$ 1	$ 1

The holder of common shares is entitled to receive dividends as declared from time to time, and is entitled to one vote per share at meetings of the Corporation.

Contributed surplus is a component of shareholder's equity used to record the transfer of capital to the Corporation by a related party where there is no requirement to repay the amount under any circumstances. In 2014, a dividend of $466,989 was declared from contributed surplus relating to the redemption of the GM preferred shares representing the proportionate value of the asset initially received as contributed surplus. The remaining value of the asset initially received of $2,011 has been reclassified from contributed surplus to accumulated deficit as the asset is no longer held by the Corporation.

In addition, in 2014 a dividend of $561,616 was paid from contributed surplus in relation to the dividend in kind of GM common shares which represents the proportionate value of the asset initially received as contributed surplus.

In 2013, a dividend of $459,151 was paid from contributed surplus from the sale of GM common shares representing the proportionate value of the asset initially received as contributed surplus.

13. Supplemental cash flow disclosure:

Changes in non-cash working capital balances for the years ended December 31 include the following:

	2014	2013
Decrease in accounts receivable	$ 19,680	$ 3,878
Decrease in inventory	623	484
Decrease (increase) in prepaid expenses	28	(12)
(Decrease) increase in accounts payable and accrued liabilities	123	(31,612)
Change in non-cash working capital items	$ 20,454	$ (27,262)
Relating to:		
Operating activities	$ 24,870	$ (22,922)
Investing activities	(4,416)	(4,340)
Change in non-cash working capital items	$ 20,454	$ (27,262)

In 2014, a dividend of $466,989 was declared from contributed surplus from the redemption of the GM preferred shares and is included in dividend payable at December 31, 2014. As discussed in note 9, in 2014, the Corporation paid a dividend in kind of 36,694,915 common shares at a fair value of $1,419,715 of which $858,099 was paid from accumulated deficit and $561,616 was paid from contributed surplus.

14. Net crude oil revenue and production and operating expenses:

a) Net crude oil revenue for the years ended December 31 is comprised as follows:

		2014		2013
Gross crude oil revenue	$	404,020	$	492,136
Less: marketing fees		(348)		(348)
Less: royalties		(108,207)		(135,753)
Less: net profits interest		(33,122)		(43,140)
Net crude oil revenue	$	262,343	$	312,895

b) Royalties:

CHHC pays royalties monthly to the Province on the revenues generated from Hibernia and HSE Unit production in accordance with two royalty agreements which govern the applicable license areas. Both royalty agreements consist of tiered royalty structures including gross royalty, net royalty and supplementary royalty. Currently, the majority of Hibernia production is encumbered by a royalty rate of 30% of net transfer revenue, whereas the majority of HSE Unit production is encumbered by a royalty rate of 5% of gross transfer revenue. Gross transfer revenue reflects gross revenue adjusted for eligible transportation costs, while net transfer revenue reflects gross transfer revenue adjusted for eligible operating and capital costs.

In 2014, total royalties averaged 27% of gross revenue (2013 - 28%).

c) Net Profits Interest ("NPI"):

CHHC is also party to an NPI Agreement, which provides for a monthly NPI payment to the Government of Canada by all Hibernia owners. The NPI payment is based on 10% of net revenue (gross revenue adjusted for eligible transportation, operating and capital costs). In 2014, NPI payments averaged 8% of gross revenue (2013 - 9%).

d) Production and operating expenses for the years ended December 31 are comprised as follows:

		2014		2013
Hibernia joint account production and operating expense	$	21,039	$	21,018
Crude oil tanker operating expense		8,542		7,689
Recoveries of crude oil tanker operating expense		(3,022)		(2,554)
Facility use fees net of incidental net profits interest		(465)		(656)
Total production and operating expense	$	26,094	$	25,497

15. Commitments:

a) CHHC's commitments at December 31, 2014 are summarized in the table below and include: (i) operating leases for its office space, its share of HMDC's office space, and (ii) its share of the Mattea crude oil shuttle tanker; and Hibernia Project contract commitments for helicopters, vessels and drilling services:

Within one year	$	17,629
One to five years		35,744
More than five years		823
	$	54,196

b) HMDC has provided a $70,000 non-negotiable demand promissory note as part of the Operator's requirement to provide proof of financial responsibility to the C-NLOPB in the event of potential claims under certain sections of the *Canada Newfoundland Atlantic Accord Implementation Act*, the Newfoundland Offshore Petroleum Drilling Regulations and the Newfoundland Offshore Area Petroleum Production and Conservation Regulations. The Operator's Operations Authorization has been extended to October 31, 2015, while the note will expire on April 30, 2016. There were no draws on the promissory note during 2014 or 2013. CHHC's share of this commitment is $5,950.

In addition, the owners are required to provide further proof of financial responsibility by depositing letters of credit or cash in the gross amount of $30,000 with the C-NLOPB (note 7). At December 31, 2014 and 2013, there have been no draws on the letters of credit.

16. Contingencies:

The Corporation or its subsidiaries, in the normal course of its operations, may become subject to a variety of legal and other claims against the Corporation. Where it is probable that a past event will require an outflow of resources to settle the obligation and a reliable estimate can be made, management accrues its best estimate of the costs to satisfy such claims.

CHHC is a party to an ongoing contractual dispute, the outcome of which is subject to future dispute resolution proceedings. Based on information presently available and after consultation with external legal counsel, management believes that the probable resolution will be favorable to CHHC, and thus no amount has been recognized in the financial statements.

CEI is co-defendant with the Province of Ontario, the Attorney General of Canada, the Canadian Nuclear Safety Commission and BOC Canada Limited in a proposed class action lawsuit brought by certain residents of the municipality formerly known as Deloro in the County of Hastings, Ontario. The lawsuit is based on the alleged contamination of certain properties. CEI has filed a notice of intent to defend. While no liability is admitted, the financial impact on the Corporation, if defence against the action is unsuccessful, is currently not determinable.

17. Capital management:

The Corporation considers its capital structure as the aggregate of its shareholder's equity of $3,319,121 (2013 - $5,548,721), which is comprised of its share capital, contributed surplus, accumulated other comprehensive income and accumulated deficit. The Corporation and its subsidiaries' objectives when managing capital are to prudently manage its revenues, expenses, assets, liabilities and general dealings to ensure that it effectively achieves its objectives and purpose, while remaining a going concern.

CHHC monitors changes in economic conditions and the risk characteristics of the underlying petroleum industry so that it can continue to provide returns for shareholders and benefits for other stakeholders. CEI monitors its cash and cash equivalents position and its cash held in the CRF so that it can meet its liabilities. GEN relies on cash dividends received from the common shares it holds and on sales of common shares to fund operations. Due to the limited expenditures forecast at present for GEN, these funding sources are considered adequate to maintain operations.

The Corporation's share capital is not subject to any external restrictions. There were no changes to the Corporation's approach to capital management during the year.

18. Risks to the Corporation:

Overview:

The nature of CDEV's consolidated operations expose the Corporation to risks arising from its financial instruments that may have a material effect on cash flows, profit and comprehensive income. This note provides information about the Corporation's exposure to each of these risks as well as the Corporation's objectives, policies and processes for measuring and managing them.

(a) Credit risk:

Credit risk is the risk of financial loss to the Corporation if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale and marketing of crude oil. CHHC has assessed the risk of non-collection of funds as low, as CHHC shares cargos with the marketer and generally contracts with large purchasers with established credit history. The marketer maintains credit surveillance over all pre-approved purchasers. Of the total amount of accounts receivable, 58% (2013 – 82%) relates to accounts receivable from the marketer, which has all been collected subsequent to year end.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation did not have an allowance for doubtful accounts as at December 31, 2014 and 2013 and did not provide for any doubtful accounts during 2014 or 2013. As at December 31 the following amounts were included in accounts receivable:

		2014		2013
Outstanding under 120 days	$	38,514	$	58,129
Outstanding greater than 120 days		11		76
Total accounts receivable	$	38,525	$	58,205

Cash and cash equivalents, as well as cash and cash equivalents held in escrow are held by major Canadian chartered banks. All cash equivalents are purchased from issuers with a credit rating of R1 High by Dominion Bond Rating Service.

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its work commitments and/or other financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meets its liabilities when due. Trade payables are normally payable within 30 days of invoice.

The Corporation's liquidity is dependent upon its operating cash flows. Expected future cash flow from the working interest in the Hibernia Development Project currently exceeds estimated operating expenses and future capital expenditures. Considering these circumstances and the cash and cash equivalents balance at December 31, 2014 of $609,420 (2013 - $101,768), the Corporation's liquidity risk is assessed as insignificant. Some operating expenses and commitments of subsidiaries can be funded by capital contributions from the Corporation to maintain the liquidity of subsidiaries.

18. Risks to the Corporation: (continued)

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, and includes foreign exchange, commodity price, interest rate risk and other price risk.

The Corporation does not use derivative instruments, such as interest rate swaps or forward foreign currency contracts, or other tools and strategies to manage its market related risks.

(i) Foreign exchange risk:

The Corporation is exposed to foreign exchange risk on revenues, certain expenditures and financial instruments that are denominated in U.S. dollars.

Crude oil is priced in U.S. dollars and fluctuations in USD/CAD exchange rates may have a significant impact on revenues. It is estimated that a 1% strengthening in the Canadian dollar relative to the U.S. dollar would result in a $1,963 decrease to the Corporation's profit for the year ended December 31, 2014 (2013 - $2,169), with all other variables held constant.

Since dividend income from the GM common shares is received in a foreign currency (U.S. dollars), the Corporation's cash flows are exposed to foreign exchange fluctuations. The Corporation is also exposed to foreign exchange rates upon any fair valuation of financial instruments with changes impacting profit or other comprehensive income as well as impacting dividend income converted into Canadian dollars. The Corporation did not have any foreign exchange rate contracts in place as at or during the year ended December 31, 2014 or 2013. A 1% change in the the Canadian dollar relative to the U.S. dollar with all other variables held constant would have an impact on profit of $6,090 (2013 - $4,562) and an impact on other components of equity of $25,613 (2013 - $44,992).

(ii) Commodity price risk:

CHHC's financial performance is closely linked to crude oil prices (including differentials). All of CHHC's oil production is sold at spot prices, exposing the Corporation to the risk of price movements and resulting fluctuations in revenues. CHHC did not have any commodity price contracts in place as at or during the year ended December 31, 2014 or 2013. It is estimated that a 10% decrease in realized oil price would result in a $19,627 decrease to CHHC's comprehensive income for the year ended December 31, 2014 (2013 - $21,691), with all other variables held constant.

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its cash and cash equivalents which bear a fixed rate of interest. The risk is not considered significant as the Corporation's interest revenue is less than 1% of total revenue.

(iv) Other price risk:

Other price risk is the risk that the fair value of certain financial instruments is subject to market price fluctuations.

Changes in market values will impact other comprehensive income and future profit and cash flows if the Corporation disposes of the GM common shares. Given that some of the Corporation's financial instruments are denominated in a foreign currency the adjustment due to foreign currency translation may also cause market price fluctuations. For any 10% change in the price of GM common shares, other comprehensive income would be impacted US $256,131 (2013 - US $449,916).

18. Risks to the Corporation: (continued)

(d) Fair value of financial instruments:

The following table summarizes information on the fair value measurement of the Corporation's financial assets grouped by the fair value level:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2014				
Cash on deposit in the CRF	$ 118,861	$ 118,861	$ -	$ -
Common shares of GM	2,971,370	2,971,370	-	-
Total	$ 3,090,231	$ 3,090,231	$ -	$ -
December 31, 2013				
Cash on deposit in the CRF	$ 122,880	$ 122,880	$ -	$ -
Preferred shares of GM	449,000	-	449,000	-
Common shares of GM	4,785,310	4,785,310	-	-
Total	$ 5,357,190	$ 4,908,190	$ 449,000	$ -

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate fair value because of the short-term nature of these items. There were no movements between levels in the fair value hierarchy during the period.

19. Related party transactions:

The Corporation is related in terms of common ownership to all Canadian federal government departments, agencies and Crown corporations. The Corporation may enter into transactions with some of these entities in the normal course of business under its stated mandate.

CDEV declared dividends payable to the Government of Canada during the year ended December 31, 2014 in the amount of $2,165,102, of which $1,028,605 was paid from contributed surplus (2013 - $1,303,698 of which $459,151 was paid from contributed surplus).

On December 22, 2014, the Corporation declared a dividend in kind of 36,694,915 GM common shares. At the direction of the Government of Canada, CDEV's sole shareholder, the GM common shares were delivered directly to the Province of Ontario.

19. Related party transactions: (continued)

a) Key management personnel compensation

Key management personnel are comprised of the directors and executive officers of CDEV and its subsidiaries. In addition to their salaries, the Corporation also provides non-cash benefits to executive officers.

There were no amounts paid to key management personnel relating to post-employment benefits, other long-term benefits, termination benefits or share-based payment.

		2014		2013
Key management personnel compensation comprised of:				
Salaries, other short-term benefits, director fees	$	2,881	$	2,675

b) Other related party transactions affecting Profit:

		2014		2013
CRF Interest income	$	981	$	1,068

c) Items affecting Statement of Financial Position

		2014		2013
Cash on deposit in the CRF	$	118,861	$	122,880
Dividend payable	$	466,989	$	-

20. Supplementary information:

The consolidated financial statements of the Corporation include 100% of the assets, liabilities, revenues and expenses of CHHC as follows:

		2014		2013
Statement of Financial Position:				
Assets:				
Current	$	166,515	$	139,046
Non-current		276,880		236,795
		443,395		375,841
Liabilities:				
Current		27,080		28,786
Non-current		95,936		64,676
		123,016		93,462
Shareholder's Equity		320,379		282,379
	$	443,395	$	375,841
Statement of Comprehensive Income:				
Revenue:				
Net crude oil revenue	$	262,343	$	312,895
Other income		1,584		3,444
Expense:				
Total expenses		(77,306)		(73,024)
Income taxes		(51,621)		(69,246)
Comprehensive income	$	135,000	$	174,069
Statement of Cash Flows:				
Cash provided (used) by:				
Operating activities	$	189,985	$	189,793
Financing activities		(99,014)		(143,585)
Investing activities		(53,094)		(38,448)
Increase in cash and cash equivalents	$	37,877	$	7,760

21. Subsequent event:

In March 2015, CDEV received notice of a lawsuit filed in 2014 in the Republic of Panama against Multidata Systems International Inc., Nordion Inc., and CDEV. The lawsuit alleges that the plaintiffs were overexposed to radiation from equipment during treatments received at a clinic in Panama. The ultimate magnitude of this liability, if any, is not reasonably estimable at this time. No accrual has been made on the consolidated statement of financial position by the Corporation.